Testimony
White House Conference on Aging Listening Session
Tuesday, December 7, 2004
Indianapolis, Indiana

Dear White House Conference Representatives:

Thank you for the opportunity to speak to you today about the fate of aging Hoosiers in our ever changing work environment. Indiana, the Crossroads of America, is a reflecting pool of workforce aging in America. According to the 2000 US Census, there are 1,461,581 people age 45-64 in Indiana who will want and/or need to work, in addition to 783,059 individuals age 65 and older who also may not be ready to leave the workforce.

Indiana, like much of the nation, is facing significant workforce and economic challenges. Some of the challenges include: the loss of thousands of high-paying manufacturing jobs in a state whose economy is more highly dependent on manufacturing than any other in the nation; 85% of all jobs in 2005 will require at least some postsecondary education yet Indiana ranks 35th in the nation in associate degree attainment, 44th in bachelor's degrees, and 38th in "some college;" the percentage of 18 to 34 year olds in the state's population is decreasing and the percentage of 35 to 65 year olds is increasing. The combination of an aging workforce and a "brain drain" of young people have many communities worried. There are serious consequences from this combination such as an insufficient supply of skilled, entry-level workers to replace retirees and greater demand on an already overburdened health care system. As the nation's workforce ages, Indiana will be competing with other states for mature, as well as, younger workers. A 2002 General Accounting Office (GAO) report recommended that "employers begin to seriously consider implementing strategies to retain older workers and keep them in the workforce longer" to position themselves for success as the baby boomers approach retirement. Researchers Judith Callaham, Scott Kiker and Tom Cross suggest, "organizations which learn how to train older workers effectively stand to gain a significant competitive advantage over those that ignore demographic trends."

The workforce issue is complex. Many of our aging workers are employed in manufacturing businesses which continue to downsize or leave this state. The Thomson picture tube plant closed this spring in Marion and the planned closing of Manual Transmission in Muncie are just two examples of firms that are leaving behind long- term employees. Some of the affected workers, often in their forties and fifties, can transfer to other divisions of a company that is closing while others are left behind to seek new employment. Efforts at retraining are occurring. Through workforce development initiatives, former employees are being offered the opportunity to learn computer skills to enhance their marketability. Even with such skills enhancement, it is difficult for aging, displaced workers to find meaningful employment. Often, those who do find employment take positions which pay substantially less than they were making previously. Health care coverage becomes a great concern for these displaced workers.

Additionally, there is concern about companies which are acquired by another corporation and commitments made to retired employees and those who took early retirement packages from the company which is now subsumed by another company. Will the new company honor the original commitment made to the employee? If not, what happens to an employee who was promised certain benefits which now are considered null and void?

Numerous economic factors are impacting whether workers remain or return to the labor force later in life such as: inadequate retirement savings; stagnating pension coverage leaving many workers with little or no pension protection; shift from defined benefit to defined contribution plans transferring the risk of investing to employees; cuts in retiree health benefits, making early retirement financially unfeasible; and the increase in the age of eligibility for full Social Security benefits and reduction in the size of the age 62 benefit.

According to a recent survey from the Society for Human Resource management, two-thirds of U.S. employers don't actively recruit older workers; more than half do not actively attempt to retain key ones; 80% do not offer any special provisions such as flexible work arrangements to appeal to the concerns of mature workers; and 60% of CEOs say their companies don't account for workforce aging in their long-term business plans. Ken Dychwald, Ph.D., founding President and CEO of Age Wave, and Tamara Erickson and Bob Morison of The Concours Group in their article, "It's Time to Retire Retirement," March 2004 Harvard Business Review, have made recommendations concerning utilization of the millions of workers over age 55. Their recommendations to address the issue of retirement are: create a culture that honors experience; offer flexible work; think about flexible retirement; and provide more flexible benefits for older workers.

I would like to address briefly the recommendation on more flexible benefits for older workers as it is key in the decisions that aging workers make about whether to retire or not. In a perfect world, flexible retirement would allow employees to move in and out of the workplace without ever choosing a moment to retire. Employers would offer flexible work compensation, pension and benefits arrangements according to fairness and merit. Employees would have the option of entering a flexible work arrangement, not at some fixed age, but whenever it's desirable and feasible, putting together an appropriate combination of salary and "retirement income." Health insurance and other benefits would be portable from employer to employer and the government would ensure a health-care safety net for all. Employers would need reasonable flexibility in selecting employees and legal protection from discrimination claims from those workers not selected. Flex retirement would come in different packages - different work for a former employer, the same type of work for a new employer, a career restart, and variable schedules.

At this time in the United States, things don't yet work this way and truly flexible retirement is not yet possible for most employees of publicly held for-profit corporations. According to an Employment Policy Foundation study, 65 % of employers in the United

States would like to offer such flexible retirement, but most feel blocked by regulatory restrictions. The obstacles regarding pension and benefits regulations are the Internal Revenue Code, The Employee Retirement Income Security Act and the Age Discrimination in Employment Act.

Internal Revenue Code regulations prohibit defined-benefit pension plans from making distributions until employment ends or the employee reaches "normal retirement age." Coupled with an ERISA provision, this can prohibit distribution even after normal retirement age. The Employee Retirement Income Security Act imposes rules of uniformity in the treatment of employees and their pension benefits. These rules make it hard to construct arrangements for the skilled and valuable employees whom companies most want to retain. Lastly, The Age Discrimination in Employment Act requires equal benefits, such as health insurance, regardless of age. One could ponder if benefits can be reduced as part of a flexible retirement arrangement and not violate the Act.

Thus, working around pension regulations can complicate the design of flex retirement programs. The regulations may make employees, for financial reasons, to retire altogether or return altogether rather than opt for flex retirement. Legislative changes are required to overcome these regulatory impediments and employers would have to come together in lobbying for them.

The Employment Policy Foundation has outlined many of the needed regulatory changes:

- Amend pension rules to prohibit reductions in pension benefits if an employee's pay is reduced owing to flex retirement.

- Eliminate the 10% penalty on early distribution to employees with 30 or more years of service, regardless of their age, and allow distribution from 401(k) plans before age 59.

- Allow people ages 55 to 65 to buy Medigap insurance at competitive rates.

- Liberalize nondiscrimination tests for flexible retirement plans.

Of course another confounding issue is the cost of health benefits. Rising costs motivate employers to reduce these costs by reducing coverage for employees and retirees. Since costs and premiums increase with age, employers have a disincentive to retain older workers. More and more employers are taking actions such as increasing employee premiums and co-payments, lowering contributions levels and raising eligibility requirements, and a few are eliminating retiree health coverage. Employees are afraid to take advantage of flex retirement programs if it means their health care costs go up.

So I urge you to consider remedies to the regulatory roadblocks that I have cited here. Additionally, I would like to recommend the following as ways to support aging workers:

- Continue the National Family Caregiver Support Program administered by the Administration on Aging so that workers can be supported and continue to be productive employees. This program supports aging workers who have caregiving responsibilities for aging relatives. Boomers are evaluating their commitment to their family members and a growing number are temporarily or completely dropping out of the workforce to honor their commitment.

- Establish some mechanism to encourage /reward employers to initiate or expand their employee wellness programs to stem rising health care costs.

- Fund demonstration projects which bring together communities to evaluate the use of aging workers to promote economic growth. For example, Workforce Development Boards, Chambers of Commerce, private and public sector employers, human resource personnel, employed baby boomers, retirees, displaced workers, area agency on aging Title V administrators, SCORE members, gerontological educators, and others could be brought together to assess the number of aging workers 40 and older, their support needs, and any employer barriers to retaining aging workers, to assess any disconnect between market demands and workforce capacities and to develop strategies to retain or attract aging workers.

I would like to say that I am living in Muncie, dubbed Middletown USA with these issues that I am raising today. Retirees of manufacturing companies are taking part time jobs due to rising costs of health care. Employees of companies who have closed are working part time and full time (if they can find such work) for companies such as Pathologists Associates so that they can support their families and acquire health care coverage. A neighbor who retired from a company at age 62 began to work for a company full time but has had to scale back his hours since he is penalized for making too much money according to Social Security rules.

For all of us aging baby boomers such as myself, for those who paved our way and are still in the workforce and for those who will enter the workforce in the future, it is time to evaluate our workforce system. Everyone's future depends on us using our collective wisdom.

In closing, I would like to quote Dr. Sara Rix, Senior Policy Advisor, AARP's Public Policy Institute. "Even without legislative or private sector initiatives to expand employment opportunities for older workers, the U.S.A. labor force is aging. Financial need and/or the wish to remain active may keep a sizable portion of today's workers in the labor force beyond retirement age. Though older workers in the U.S. may never get the attention they are now getting in Europe, they are nevertheless poised to become even more of a fixture in the U.S. labor force then they are today. Perhaps, as is asserted in Finland, their experience will even become recognized as a national asset."

Thank you.

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